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SUBJECT: LULA VISITS ARGENTINA TO ADDRESS BILATERAL TRADE FRICTIONS

Refs: (A) 07 BUENOS AIRES 1127  
(B) BUENOS AIRES 991

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Summary  
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¶1. (SBU) Brazilian President Lula da Silva arrives in Buenos Aires August 3 with a 300-strong delegation of private sector representatives shortly after a very public split between Argentina and Brazil on agricultural subsidy and industrial tariffs in end-game WTO Doha negotiations. Lula's meeting with President Cristina Fernandez de Kirchner (CFK) will lead off high-level bilateral trade and investment discussions. While Argentine officials had earlier chastised Brazil's more flexible WTO Doha stance on industrial tariffs for "creating tension" in the bilateral relationship, GoA officials privately downplayed the impact, noting a GoB side-offer to Argentina in Geneva to cede some of its own WTO Mercosur trade bloc tariff line exceptions to compensate Argentina. Other outstanding bilateral frictions to be addressed with the GoB delegation include growing Argentine frustration over its large and expanding bilateral trade deficit with Brazil (septel), Brazilian annoyance over Argentina's blocking of wheat exports to Brazil during and before Argentina's recent agricultural sector crisis, and questions by Argentina about whether unilateral selective Brazil tariff reduction has undermined Mercosur's common external tariff structure. Venezuela's President Chavez will apparently join Lula and CFK for a discussion of regional energy and integration issues at some point Monday, adding a wild card to Monday's events. End Summary.

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Doha Round - Brazil Compromises, Argentina Doesn't  
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¶2. (SBU) Brazilian President Luis Lula da Silva arrives in Argentina on Sunday, August 3, for a two-day state visit with senior Ministers and a 300-strong delegation of Brazilian private sector representatives. Venezuelan President Hugo Chavez will join them on August 4 for a discussion of regional energy and integration issues. The timing of the meeting is marked by differences over a number of economic issues, most notably the distinct final positions of the two countries in the WTO Doha Development Round (DDR) Ministerial-level negotiations held last week in Geneva. At the time, Brazil showed more flexibility with respect to developed country demands for significant industrial tariffs cuts than Argentina was willing to accept.

¶3. (SBU) At mid-July meeting of Mercosur foreign ministers in Rio, Argentina and Brazil sought - unsuccessfully - to find a common position for the DDR talks. Differences became even more marked in

the final days of late July Ministerial-level discussions in Geneva.

Brazil was one of just seven WTO members (along with the US, EU, China, India, Japan and Australia) which participated in a reserved session designed to iron out differences. While Brazil ultimately accepted developed country compromise positions on agriculture and NAMA texts, both India and China did not and Doha talks foundered. Celso Amorim, Brazilian Foreign Minister, is reported to have told Brazilian press that Brazil "could not be completely held hostage" by Argentine demands. A senior Brazilian diplomat confirmed to Ambassador Wayne that Brazil had been upset with Argentina's inflexible position, but in the end decided to focus on what India was going to do as Argentina would be unlikely to stand alone if India joined the consensus. Of course, in the end India did not join the consensus.

13. (SBU) Alfredo Chiaradia, Argentine Foreign Ministry (MFA) Secretary of Trade and the GoA's senior Doha negotiator, was reported in local press on July 27 as saying that Brazil's decision "creates a certain tension in Mercosur." This was just two days after Chiaradia's deputy, Nestor Stancanelli, told the press that Brazil "represents Mercosur" in the Doha talks. Local press on July 31 quoted an unnamed Argentine negotiator as saying that the position Brazil took "has a very high cost for Mercosur and Argentina's bilateral relationship" with Brazil. Local press quotes a "regional diplomat as saying that, while "Brazil's decision was made known within Mercosur, Argentina came (to Geneva) to kick over the table."

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GoA Officials Downplay DDR Frictions with Brazil  
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14. (SBU) Ernesto de la Guardia, a Counselor in the MFA Office of Mercosur Affairs, downplayed the tension in a private conversation with EconCouns July 31, noting that Brazil had offered during Doha end-game discussions to cede to Argentina "more than its fair (trade-weighted) share" of the 14-16% of tariff lines (roughly 1,500 products) exempted from higher tariff cuts on industrial goods which would have been granted to the Mercosur customs union under a Doha NAMA deal. Separately, Economy Ministry Secretary of Industries and Commerce Fernando Fraguio confirmed to EconCouns August 1 that Brazil had indeed made such a "friendly" offer to the GoA on the margins of Doha, though the offer was never fleshed out due to the abrupt end of Geneva negotiations.

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Argentina Feels Sting of Bilat Trade Deficit  
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14. (SBU) Another area of significant concern to the GoA is Argentina's substantial and growing bilateral deficit with Brazil of trade in goods. Despite an overall trade surplus of over US\$11 billion in 2007, Argentina maintained a deficit with neighbor and top trading partner Brazil of \$4.4 billion. (Septel will have more details of the bilateral trading relationship.) Argentine concern over this imbalance is most visible in automobile and auto parts manufacturing, where the countries have established a series of managed trade agreements (Ref A). The current agreement, which lasts until the end of 2008, allows Brazil to export to Argentina up to 95% more value in cars and parts than it imports from Argentina. Without such a limit, Argentina's bilateral trade deficit would grow even more. Leonardo Abiad, advisor to Secretary of Industry confirmed to Econ Couns August 1 that the GoA planned, in bilateral discussions with the Brazil delegation, to address trade deficits and improve Argentine access to Brazilian markets in autos and auto parts, textiles, white goods and intermediate capital goods.

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Problems with Wheat Exports  
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15. (SBU) Argentina's recently-concluded conflict with the agricultural sector (Ref B) has had an impact on the bilateral trade relationship as well. Brazil, which historically has sourced the bulk of its wheat imports from Argentina, was forced to turn to North American suppliers in 2008 to replace shipments from Argentina held back by the GoA's temporary closure of its wheat export registry. Furthermore, GoA subsidies to the agriculture sector,

including subsidized diesel, have created fallout in Brazil. Local media reports that Brazilian wheat millers accuse Argentina of dumping already processed wheat, complaining that GoA subsidies for wheat growers amount to an export subsidy. Nonetheless, in what Rosario Solari, Director of International Relations for the Argentine Exporters' Chamber, termed (to Econoff on July 31) as "a gesture to Brazil" prior to Lula's visit, the GoA on July 30 authorized the export of 900,000 tons of wheat, most of which will likely go to Brazil.

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Common External Tariff Undermined?  
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¶6. (SBU) Finally, according to press reports, the GoA has questioned a Brazilian decision in July 2008 to unilaterally reduce import tariffs on 141 goods, ranging from paper and auto parts to textiles and steel. The GoB reduced the duty rates from 14% to 2% for the remainder of the year. Mercosur accords do allow each member a limited number of exceptions to the group's Common External Tariff, and the MFA's de la Guardia told EconCouns that Brazil's move was indeed permitted under Mercosur norms and that the press reports about the GoA reation were erroneous.

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COMMENT  
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¶7. (SBU) At the root of Argentina's bilateral trade frictions with Brazil appears to be a difference in focus: while an increasingly confident and globally oriented Brazil is looking outward, Argentina remains focused on protecting its relatively inefficient industrial interests, and attempting to ensure adequate domestic supply of agricultural goods at low prices, despite the risk of limiting future production and exports. Where Brazil sees opportunities for the future, Argentina sees threats in the present and in the future of opening its economy more to the world. In upcoming bilateral discussions in Buenos Aires August 4-5, Argentina will likely focus on the practical and work hard to address its burgeoning trade deficit with Brazil. Chavez' last minute participation in discussions with Presidents Fernandez de Kirchner and Lula is a wildcard - beyond putting Venezuela's still-unratified (by the Brazilian and Paraguayan parliament) accession to full Mercosur membership on the agenda, it remains unclear whether and how his presence will impact bilateral GoA/GoB discussions.

WAYNE